

26 August 2015

Pepper reports 1H15 Adjusted NPAT of \$16.7m

Board reconfirms CY15 prospectus forecasts

Highlights

- Adjusted NPAT of \$16.7 million
 - Pro forma NPAT of \$14.9 million (Statutory NPAT of \$3.8 million)
 - Pro forma Income of \$132.6 million (Statutory Income of \$225.3 million)
 - Assets Under Management (AUM) of \$36.8 billion, up 29% on CY14
 - Strong growth platform with:
 - Higher than forecast new residential mortgage lending volumes in Australia
 - Launch of direct to consumer campaign in Australia, expected to bolster future origination volumes
 - Strong foundations established for new lending businesses, namely Pepper Asset Finance (auto and equipment finance), Pepper South Korea (residential mortgages and personal loans) and Pepper Spain (point-of-sale finance and personal loans)
 - Recent expansion of lending into new geographies (residential mortgages in UK and consumer lending in Hong Kong and China via Prime Credit acquisition)
 - On-boarding of a range of new servicing contracts in Ireland, Spain and the UK, in addition to being awarded a number of new contracts, in 1H15
 - Board reconfirms CY15 prospectus forecasts
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Pepper Group Limited (Pepper; ASX:PEP), a specialist residential mortgage and consumer lender and loan servicer, today announced its interim results for the six months ending 30 June 2015. The company listed on the Australian Securities Exchange (ASX) on 31 July 2015.

Pepper reported pro forma total income of \$132.6 million and statutory total income of \$225.3 million. Statutory income includes income from limited recourse warehouses and Special Purpose Vehicles (SPVs) but excludes associated funding costs.

Pro forma NPAT for 1H15 was \$14.9 million and Statutory NPAT was \$3.8 million. Adjusted NPAT was \$16.7 million and in line with expectations. As flagged in Pepper's prospectus (dated 17 July 2015), management expects Adjusted NPAT will be weighted towards the second half (1H circa 35%; 2H circa 65%). This skew reflects:

- Seasonality in the Australian mortgage market resulting in higher 2H15 non-conforming and prime residential mortgage origination volumes

- Higher 2H15 origination volumes for the less mature lending businesses, particularly Pepper South Korea (residential mortgages & personal loans), Pepper Spain (point-of-sale finance & personal loans) and Pepper Asset Finance (auto & equipment finance), reflecting their continuing growth
- The growth profile of the International loan servicing businesses in Ireland, the UK and Spain with higher weighted average AUM in 2H15 due to the onboarding of material new contracts during the course of 1H15
- Timing of certain transactions (for example, whole loan sales in South Korea and Australia)

Pepper's Co-Group Chief Executive Officer, Mike Culhane, said the results were a reflection of the stable, diversified platform management has built to facilitate growth both locally and internationally.

"Pepper's HY result is slightly ahead of expectations and in line with our forecasts for calendar year 2015. The business continues to grow strongly across its core business lines including residential mortgages, consumer lending and loan servicing. Management has confidence in the continued strong performance of the business into the second half and beyond. Recurring revenue streams on our existing lending and servicing portfolios give us confidence in our earnings visibility going forward."

Growth remains a focus

Pepper has a consistent track record of delivering growth, increasing its combined lending and servicing assets under management (AUM) from \$4.9 billion in 2011 to \$36.8 billion at the end of 1H15.

Servicing

During 1H15, Pepper on-boarded a number of new servicing contracts in Ireland, Spain and the UK, some of which had originally been awarded in late 2H14. This has given rise to a substantial increase in servicing AUM from CY2014 to 1H15.

Subsequent to 30 June 2015, Pepper Ireland was awarded a contract to provide Third Party asset servicing on a A\$5.6 billion loan portfolio, recently acquired by CarVal Investors and Goldman Sachs affiliated entities from Lloyds Banking Group. The portfolio comprises a mix of Residential, Commercial and Unsecured loans. The contract will be earnings accretive from CY16.

Co-Group Chief Executive Officer Patrick Tuttle said: *"We were pleased to have recently secured three new servicing contracts, with Spain and the UK on-boarded during the first half and Ireland to be on-boarded in the second half. We continue to see a very strong pipeline of servicing opportunities offshore generated by deleveraging from financial institutions and governments."*

Lending

Lending performed strongly during 1H15, with growth highlights including:

- Strong organic growth in Australian residential mortgages, driven by continuing expansion of Pepper's broker, white-label and direct-to-consumer distribution channels
- Launch of Pepper's first direct-to-consumer campaign in Australia, including the launch of its new consumer-focused website www.pepper.com.au
- Strong, diversified residential (secured) and consumer (unsecured) lending volumes for Pepper South Korea
- Launch of new residential mortgage lending in the UK, targeting non-conforming and near prime mortgages

Investment in platform for consumer lending in Hong Kong and China via Prime Credit acquisition

Co-Group Chief Executive Officer Patrick Tuttle said: *"Australian residential lending volumes are slightly ahead of expectations on a year to date basis. Underpinning this growth is our increasing penetration of national broker networks, further white-label partnerships and the continuing emergence of our direct-to-consumer channel. Due to ongoing promotion and investment, we anticipate a higher proportion of direct business going forward, further strengthening and diversifying our mortgage distribution footprint."*

"During the half, Pepper Asset Finance delivered good organic growth in auto and equipment finance lending. Our residential and consumer lending businesses in South Korea and Spain (consumer only) have continued to make pleasing progress in 1H2015. We also recently commenced residential mortgage lending in the UK, where local market conditions are supportive of specialist mortgage lenders who can offer consumers alternatives to the High Street banks."

Balance sheet strength

Following its recent IPO, Pepper maintains its strong financial position with net cash on balance sheet of \$144.8 million and adjusted pro forma net assets of \$371.8 million. With an undrawn corporate facility, Pepper has both the liquidity and flexibility to continue to fund future growth opportunities as they emerge.

Outlook

The macroeconomic environment for residential mortgage and auto and equipment finance lending in Australia has been strong and is forecast to remain supportive given the historic low interest rate environment and relatively low unemployment levels. Regulatory pressure on bank capital requirements also creates continuing opportunities for Pepper to selectively target underserved lending market segments on a pricing for risk basis.

Internationally, Pepper sees continued loan servicing and lending opportunities as traditional banks withdraw to core lending markets.

"The Pepper team remains focused on our strategy to continue to deliver disciplined growth across all of our Australian and International lending business, delivering strong risk-adjusted returns from lending segments typically underserved by banks and other traditional lenders in each of the markets in which we operate," Concluded Mr Tuttle.



Pepper expects to be able to continue to grow its income and profitability in CY2015, and the Pepper Board is reconfirming prospectus forecasts:

- AUM to increase 44.2% year on year (YOY) to \$41.3 billion
- Pro forma income to increase 30.8% YOY to \$304 million
- Adjusted NPAT to increase by 33.9% YOY to \$47.0 million

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About Pepper Group Limited

Pepper Group Limited (Pepper) is a specialist residential mortgage and consumer lender and loan servicer, operating in targeted market segments in Australia and internationally, many of which are underserved by traditional bank and other prime lenders. Pepper was established in 2000 and commenced lending as a specialist residential mortgage lender in the Australian market in March 2001.

Pepper offers a broad range of lending products including residential mortgages, auto and equipment finance, point-of-sale finance and personal loans. Pepper also provides loan servicing for its own products as well as for third parties across residential mortgages, consumer unsecured and secured loans and commercial real estate (CRE) backed loans. Pepper has become a specialist lending and loan servicing group through a combination of organic growth and targeted acquisitions across Australia, New Zealand, Ireland, the United Kingdom, Spain, South Korea, and Hong Kong and China through its 12% equity interest in PrimeCredit.

At 30 June 2015, Pepper had \$36.8 billion of assets under management (AUM).